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Interborough Rapid Transit Company

Your subways

[New York]

[1919?]

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YOUR SUBWAYS

A STATEMENT OF THE FACTS ABOUT THE PARTNERSHIP BETWEEN THE CITY AND THE INTERBOROUGH RAPID TRANSIT COMPANY

ISSUED BY THE
INTERBOROUGH RAPID TRANSIT COMPANY

YOUR

SUBWAYS

Why an

Eight Cent Fare?

To Avoid—	*To Preserve—*
HIGHER TAXES	CITY CREDIT
HIGHER RENTS	STATE CREDIT
HIGHER PRICES	NATIONAL CREDIT

and to

Keep the Subways Safe!

6 Feb. 1920 - C.R.N.

PREFATORY

I.

THE CASE IN A NUTSHELL

THE City of New York is facing deficits amounting probably from $13,000,000 to $15,000,000 a year on the operation under a 5-cent fare of the Dual Subway System. Owing to abnormal costs for labor, materials and supplies, taxes., etc., due to conditions produced by the war, the system is not now earning the preferential payments to be made from operating revenue to the companies. These payments are cumulative, with interest compounded semi-annually. The situation must be met, and the question is "Shall it be by higher fares or by additional taxation?"

It is estimated that from half a million to 600,000 suburbanites and strangers from all over the world use the rapid transit lines daily. They use New York's costly conveniences, but do not live in New York or pay taxes in New York.

If the fare were raised they would add to the City's income and thereby reduce the necessary taxation.

If the fare is not raised, the whole load must be put upon the already overburdened taxpayers and rentpayers of New York. Which shall it be?

That, in brief, is the situation and the question. It is pressing for an answer.

What Refusal to Increase Fares Means.

Not to increase the fare will postpone any return to the City on its investment of $250,000,000 in the

Dual System indefinitely. Meantime it must pay interest on the borrowed money.

This means:

1. Higher taxes.
2. Higher rents and prices.
3. Reduced city credit.
4. Undermining of electric railway security credit which in New York State alone amounts to a billion and a quarter dollars.
5. Faith broken with investors.

For without belief in the City's good faith in the terms and spirit of the contracts, private capital could not have been induced to invest in the project. The City had neither funds nor unpledged credit under the debt limit to build the subways.

The added fare means no profit to the company beyond the terms stated in the contract. To the Company it simply means the receipt of preferentials currently (instead of at a later period with compound interest) and an improved credit position.

As to Municipal Operation.

Meanwhile the City officials frankly intimate that they are seeking municipal operation of the subways. Two questions arise:

1. **Would it be cheaper?**
2. **Would it be safer?**

The City admits it would have to increase fares at once. It could not be cheaper.

The subway is the safest passenger carrying railroad in the world. Would it *stay* safe, with—

1. Jobs depending upon political reasons instead of upon efficiency.
2. Political discipline instead of business discipline.
3. New management after every election.

As it could not be cheaper—and probably would be much dearer—is this not a gamble with human lives?

II.

WHAT LED UP TO THE PRESENT SITUATION.

The clearest conception of the reasons leading up to this situation will be gained by considering things in this order:

(1) The origin of the Dual Contracts and the terms.
(2) What the war has done to upset calculations.

Origin of the Dual Contracts.

The success of the first subway showed the apparent solution to several problems in rapidly growing and congested New York. New subways were needed. They would provide for:

(a) Existing transit needs;
(b) Future growth, and
(c) Tend to spread population into the suburbs and build them up.

The Interborough Rapid Transit Company was operating very profitably the original Subway under a very long lease (fifty years, with privilege of renewal for twenty-five years). The lease had no provisions for recapture of the lines by the City.

Almost from the time when the original Subway was opened in 1904 the Interborough Rapid Transit Company began to urge upon the City authorities the importance of immediate Subway extensions to complete the system as planned. Various methods were proposed and many written offers were submitted on behalf of the Company to construct and operate such enlarged system with funds provided exclusively by the Company.

The Company's Proposition.

Such offers finally culminated in a proposal in 1910 wherein the Company offered, at its own cost, to construct complete East Side and West Side subways, with extensions in Brooklyn and the Bronx. The offer was not accepted, although never withdrawn by the Company.

The Interborough Rapid Transit Company all the time stood for the plan of enlarging the existing system with its own money by making logical extensions as rapidly as necessary to anticipate an increase of population, the new lines to make up a homogeneous, unified system with a single 5-cent fare.

It had urged this as opposed to the City's plan of a separate and independent subway, which would necessarily mean double fares for a large number of persons doing business in Manhattan, but living along the new lines.

The Tri-Borough Plan.

The City, however, made plans for a new and independent subway system, called the "Tri-Borough," which was to furnish additional transportation in Manhattan, Brooklyn and the Bronx. It advertised for bids on it, but no bids were received.

This was followed by a long period of study, agitation and discussion.

The Dual System Evolved.

After the failure of the Tri-Borough scheme, the plan which ultimately resulted in the Dual System now nearly completed and partly in operation, was evolved. After various failures of the negotiators to agree, certain public-spirited citizens, among them the late Seth Low, Morgan J. O'Brien, E. H. Outerbridge and others of similar standing, tendered their good offices, with the result that

a tentative plan was formulated, and the Interborough Rapid Transit Company was invited by the City to participate in the Dual Subway enterprise.

The Dual plan as formulated by the City was so ambitious that it was impossible to finance it with City credit under the debt limit, and co-operation of private capital was necessary.

Without belief in the City's good faith in carrying out the terms and spirit of the contracts privare capital could not have been induced to invest in the project.

The plan was to build certain logical extensions to the existing Interborough System, and to include in the Dual System all the existing subways and elevated roads of both the Interborough Company and the Brooklyn Rapid Transit Company, and to build new lines into territory in all the boroughs, except Richmond, at once.

This plan, it will be noted, included the entry of the Brooklyn Company into Manhattan Borough—with a subway under Broadway—as a competitor of the Interborough.

Size of the Dual System.

The new system, when completed, will have about 620 miles of track, will carry about 3,000,000,000 passengers a year, or three times as many as all of the steam railroads combined carried in the year ended June 30, 1916. It will have cost more than the Panama Canal.

Basing its views on long experience, the Interborough foresaw a period of relatively lean traffic. It was plain that the concurrent construction of so many lines into new and comparatively thinly settled territory, together with the entry into the Borough of Manhattan by the Brooklyn Rapid Transit Company, with a new subway under Broadway, to divide traffic

going to the elevated lines and to the original subway, would create a situation which, from a purely transportation point of view, would, for a time at least, be unfavorable to the Interborough Rapid Transit Company.

City Expected the Deficits.

The City frankly recognized that there would be temporary deficits until the population grew up to the facilities, but other considerations were deemed weightier. It foresaw increased taxable values and less congested living conditions. These benefits it has been getting, amounting to vast sums.

The Dual System having been determined upon, the Interborough has co-operated heartily in every way, and often at great cost, to carry out the City's plans. The Dual Contracts were made with the Interborough Rapid Transit Company, operating rapid transit lines principally in Manhattan and the Bronx, and the Brooklyn Rapid Transit Company, operating similar rapid transit lines in Brooklyn.

Only for the World War the completed system would probably have been in operation now.

Provisions of the Contract.

The Interborough was to merge its existing Subway lines with such portions of the enlarged system as the City officials decided to give it for equipment and operation; and as soon as a contract was entered into which would enable it to interest private investors and raise money it was to furnish approximately half the construction cost as well, the City furnishing the rest. It was estimated that the Company and the City would have to supply about $58,000,000 each for construction.

The Interborough agreed, in addition, to furnish funds for the cost of equipment (then estimated at

$22,000,000), but all equipment was to be furnished by the Interborough, no matter what the cost. That cost, owing largely to the war, was increased to about $45,000,000.

Shortened Its Leases.

The Interborough at that time had two leases with the City, expiring at different times, and providing different methods of renewal. It at once agreed to shorten its leases to forty-nine years to make their terminations agree with the date for the expiration of the new lease, at the end of which time all of the properties would simultaneously revert to ownership by the City. The City was to have the right of recapture at any time after ten years.

The Interborough also agreed to pool the revenues of the original subway with those of the new lines as soon as the system was completed. Last fall it went even beyond that and agreed to pool the revenues of the lines completed on the Manhattan side of the river ahead of the completion of the whole system—which the war has delayed—namely on January 1, 1919.

In order that investors could be assured of the safety of their investment, the proposed contracts for the Dual System were submitted to the courts, and the legality was affirmed by the Court of Appeals in 1912.

The Preferential Plan.

At the time the Interborough became a partner with the City under what is now known as "Contract No. 3," it had a profitable business, which it fully realized would continue to increase for many years to come. However, following its policy of co-operation with the City, it had waived these profits and accepted the so-called "preferential" plan.

Briefly, the preferential payment is a first payment

from operating revenues of new and old lines, comprised in that part of the Dual System assigned to it, made to the private capital invested.

Payments to the City (on its invested capital) are thus made junior to payments to the private capital.

The preferential payment plan was not devised by the Interborough Company, but was adopted by the City for specific and important purposes. The original Subway had been built and operated only after many of the most prominent railway builders and capitalists —so difficult and hazardous did they deem the project— had refused to undertake it. But the enterprise fully rewarded the courage and skill enlisted in it. It had become established as a "going concern," without further serious hazard to face.

Purposes of the Preferential.

Not all the hazards of the new project could be foreseen, but these were apparent:

(a) A period of comparatively lean traffic until newly tapped territory could be built up.

(b) Competition in Manhattan by the Brooklyn Rapid Transit's new Broadway line.

A method was necessary, therefore, to protect the Interborough in the established profits of its existing business and to give the Company an incentive to pool its revenues on its old lines with the leaner revenues of the new lines, in partnership with the City.

To Enable Procuring of Capital.

The second important purpose of the preferential plan was to so assure the credit of the Interborough as to enable it to command the capital needed to participate in partnership with the City, in the new project.

Further Details of the Contract.

This plan provides that when the enlarged system is

in full operation the first preferred payment, which shall be made to the Company from operating revenue, shall be equal only to the average actual profit earned in the two years preceding June 30, 1911, plus interest and sinking fund on the new money invested. From this preferential the Company pays interest and sinking fund on its investment in the old lines and on its share of the cost of the new lines.

The City Shares the Profits.

Then the City is to get 8.76 per cent. on its investment, and after that the City and the Company are to share in the profits equally.

As to Additional Outlay.

The Interborough's contract with the City contains a provision that in any increased outlay over the estimates the cost of the money necessary to cover the same shall be added to the preferential. Therefore, the City is vitally interested in the cost of this money, because anything above normal—so long as it is within the earning power of the enlarged system—will not affect the Interborough, but will become an additional charge ahead of the City. In other words, it will set back the City's return to that extent.

The Contracts Summarized.

The contracts may be very briefly summarized, as follows:

(a) On the Manhattan Elevated lines, after operating expenses, maintenance, depreciation, taxes, rentals and interest and sinking fund upon bonds issued to provide funds for the improvements and extensions have been taken care of, the Interborough may deduct annually $1,589,000 from the revenue (to represent the average profits for the two years preceding the contract), after which the balance of earnings is to be equally divided with the City.

(b) On the Subway lines after operating expenses, maintenance, depreciation, taxes, interest and sinking fund on City bonds issued against the construction cost of the first Subway, together with the cost of the Atlantic Avenue extension to Brooklyn, 6 per cent. upon the cost to the Interborough for initial construction and equipment of the new Subways, together with the actual interest payable by the Company and 1 per cent. sinking fund upon the cost in excess of the initial cost, the Interborough is entitled to a preferential of $6,335,000 per annum.

The contracts were executed March 19, 1913.

III.

THE PRESENT DILEMMA AND ITS CAUSES.

This Company has operated economically.

At the time the Dual contracts were made no one thought of a world war, and the enormously increased costs of constructing and equipping new subways and of operating the ones already built. The most careful calculations then made by the representatives of the City, the Public Service Commissioners and the Company, based on a 5-cent fare and pre-war conditions, indicated that under normal circumstances the preferential and the interest on the Company's investment would have been quickly met, and also a return on the City's investment would have been realized.

The War Upset Calculations.

Even after the opening of the war in Europe matters were progressing favorably, and just prior to the entry of this country into the war a re-examination of the earlier estimates of the probable earning power of the new venture warranted the conclusion that the deficits during the lean period immediately following the opening of the system when completed would be about one-third of the amount originally anticipated.

Then came our entry into the war. The cost of everything mounted higher and higher. It became necessary, to complete the Interborough's part of the contracts, to raise about $40,000,000 in addition to the $160,000,000 originally borrowed. This increased greatly the fixed charges payable for interest and sinking fund.

But, in addition, operating costs soared. Wages and materials were on a war basis. These high costs continue to this day.

The net result is that if these costs continue and the City authorities do not permit an increase of fare serious embarrassment to both the City and the Interborough, its partner in the Dual Subway enterprise, impends.

High Costs of Labor and Materials.

The increased costs of labor, materials and supplies need not be detailed here beyond saying that materials and supplies have increased from 50 to 300 per cent. (averaging at least 100 per cent.), while in wages enormous increases have been given.

The total amount of wages (for operation and maintenance) at the rates of pay in effect September 10, 1918, *is* $6,250,000 *a year greater than the amount would be at the wage rates paid at January* 1, 1916.

Again the high cost of building materials checked the development of territory along the new lines, deferring the expected increase of travel.

Everything "Regulated."

These are the outstanding facts:

1. War conditions have established wage rates which we have been obliged to meet.
2. The government has set prices for most important materials.
3. The Government has so largely absorbed the supply of money that the rates have been abnormally high.
4. Fares have been limited by governmental regulation.
5. The Public Service Commission specifies the amount of service to be rendered.

The items over which the Company has had control (salaries, etc.) have been negligible in the situation.

In place of earning the returns calculated large deficits have arisen and larger ones are in sight. They are the outgrowth of abnormal and emergency conditions and as such a moral obligation, at least, rests upon the City to allow a sufficient increase of fare to offset them.

Prepared for a Lean Period.

The Interborough Company had accumulated a cash surplus of more than ten million dollars out of which to take care of operating losses during the lean years heretofore mentioned. But it is no longer adequate, and it is rapidly being exhausted.

The investments for surplus accounts have, of course, suffered along with all other securities; and, while the surplus on the books, at June 30, 1918, was $18,662,977.25 that sum could not be realized in cash at this time. A considerable portion of it represents advances to other companies to keep them in condition to render service to the public. Those companies cannot repay at this time, because they have no means of raising the money.

At June 30, 1918, there was a deficit of Subway earnings of $620,438, and of Elevated earnings of $2,306,818, compared with the amounts which the Company was entitled to receive under its contracts. These deficits are payable out of future revenues, with interest compounded semi-annually, before the City is entitled to any share in either Subway or Elevated earnings.

Outlook for This Year.

But for the current fiscal year ending June 30, 1919, the outlook is much worse. Based on the actual figures for the four months ended October 31, 1918, the trend indicates that on June 30, 1919, the deficit under

the Subway contract will be $3,887,000, and under the Elevated contracts $4,952,000, or a total accrual of $8,839,000 ahead of the City's right to return for the year. To this must be added the accruals of last year, so that the aggregate Subway accruals as of June 30, 1919, will be $4,507,000, and Elevated accruals, without interest, $7,259,000, or a total of $11,766,000.

As it is probable that the years 1920 and 1921, with a five-cent fare, will accumulate arrears as large as, if not larger, than 1919, it is apparent that by June 30, 1921, the accruals ahead of the rights of the City will aggregate thirty million dollars. How long this accumulation of arrears will defer the receipt by the City of any interest return on its own enormous investment is difficult to predict, but it would not be surprising if that period of postponement should be not less than ten or twelve years.

In any event, the accumulation must be paid out of earnings before the City will become entitled to any return.

For the next three years, if the fare remains at five cents, the City will have to raise by taxation, on account of interest and sinking fund on its investment in the Interborough Subways, sums aggregating about $12,000,000 during that period, irrespective of the interest on the City's other bonds.

IV.

WHAT HAS BEEN DONE IN OTHER CITIES TO PRESERVE ELECTRIC RAILWAY SERVICE.

The President of the United States, the Secretary of the Treasury, the Comptroller of the Currency have all addressed the public in open letters urging local authorities to care for the credit and efficiency of their local utilities, as vital to the nation's welfare.

This course has been followed in about 400 communities in the United States.

The Trouble Nation-Wide.

Without going into burdensome details, suffice it to say that the way of relief has been pointed by increases of fares, in one form or another, for nearly 400 companies in the United States. Passing by the numerous small communities, consider the 158 cities in the United States with a population of 40,000 or more.

A report compiled by the Statistical Bureau of the American Electric Railway Association says that increases have been granted in ninety of such cities, and applications were (in October) pending in all of them but seventeen.

In cities above 100,000 population increased fares have been granted or were pending in sixty-three out of sixty-seven.

Many millions of people are now paying higher fares. Among the larger cities in the higher fare list are Chicago, Boston, St. Louis, Pittsburgh, Milwaukee, Jersey City, Newark, Cleveland, Columbus, Toledo, Troy, Washington, Baltimore, New Orleans, Los

Angeles, Indianapolis, Denver, Portland, Ore.; Portland, Me.; Grand Rapids, Providence, Hartford, Fall River and Lowell.

Tacoma (a municipal line) is charging 10 cents, as are several other cities.

8-Cent Fare in Boston.

In Boston a State board of trustees is in full charge of the Boston Elevated, which comprises the subways, elevated and principal surface lines. They may fix the fares as necessity demands. The law under which they operate provides a guaranteed return to the capital invested, and if the revenue from fares does not produce it the amount must be raised by taxation.

On July 1 the fare was raised from 5 cents to 7, to take effect August 1. Four months of operation showed a deficit. The fare was then raised to 8 cents. A deficit is still indicated.

The situation in Boston under the new State law, and the situation on the subways under the Dual Contract, are strikingly similar; and the same increased costs that have affected the Boston Elevated have similarly affected the New York subways.

Many 7-Cent Fares.

In the State of New Jersey a 7-cent flat fare, with an additional 1 cent charge for a transfer, is paid in about 150 communities.

In Maine a 7-cent fare is paid in more than a dozen communities.

Several other cities in New York State, in the Second Public Service District, have been allowed either by the Public Service Commission or by the local authorities—where, as in New York City, the fares are stipulated by franchise or other contract—to increase fares. Among these cities are Syracuse, Utica, Newburgh, Ithaca, Albany and Troy.

Case of the Steam Railroads.

The Government has met the needs of the steam railroads, and the case of the electric roads is on all fours with that of the steam roads. When the Government took over the railroads it promptly increased both passenger fares and freight rates, besides decreasing passenger traffic facilities.

A Striking Contrast.

A most striking comparison between the situation of the steam railroads and the Interborough service is shown in New York City.

At Two Hundred and Twenty-fifth street and Broadway is a station of the Subway. Nearby is the Marble Hill station of the New York Central Railroad. From that point a passenger for 5 cents may ride on the Subway to the Atlantic Avenue station in Brooklyn, a distance of seventeen miles over a road that cost about $4,000,000 a mile to build and equip.

The fare by the New York Central from the same place (the Marble Hill station) to the Grand Central station, a distance of about ten miles, over an electric road that cost on the average for its entire system probably less than $100,000 a mile to build, and in cars that cost little or no more than Subway cars, is 30 cents. Before the war the fare was 15 cents.

V.

HOW THE SITUATION SHOULD BE MET HERE.

How should the situation be met? The Interborough believes it should be met as an emergency:

(a) In a way to save added burdens to the taxpayers.
(b) In a way to avoid permanent ill effect upon business and upon property;
(c) In a way to avoid shifting of populations.

All these evil results would follow from higher taxation. The wiser way is an increase in fare. The Company has petitioned the Board of Estimate to permit the fare to be raised to 8 cents, a rate sufficient, it is estimated, to meet the increased costs due to the war to meet the preferentials, to assure the Company's credit, and to return to the City, above its charges, a sum estimated to amount, in the next two fiscal years, to more than $3,500,000 in cash. A 7-cent fare, it is estimated, would do no more than meet the preferential, giving the City nothing.

Only Two Ways to Meet Deficits.

The Subway deficits of the City can be met in only one of two ways—either a higher fare (throwing the burden upon the people who actually get the benefit of the service), or by taxation, which will fall upon the already overburdened real estate owners, and which will result in increased rents, increased grocers' bills and increased cost of living generally to all the people who work and spend their incomes in New York. Whereas, if it is met by higher fares, it will not all fall upon only those citizens of New York who receive

the benefit of the service, but partly upon the 500,000 to 600,000 daily visitors or suburban residents who do not live in New York and who do not help pay her taxes.

A Receivership No Advantage to the City.

The Interborough Company is entitled to finance the accruals, and thus continue in possession of the property under the leases. But if for any reason it should not be able to raise the money because the City kept it down to a 5-cent fare and a receivership should follow, it would not give the City any advantage. Indeed, the situation might be worse, because receivers' certificates might be necessary, which would be a paramount lien, thus setting the City's investment still further to the rear.

So long as the operator, whether it be the Interborough or a receiver, performs the contract, *the City's investment remains subordinate to the Interborough investment.*

Even if there were a default which entitled the City to take possession, the interest and sinking fund on Interborough bonds would be payable prior to the City interest and sinking fund.

The City Can Harm Itself.

The City can gain nothing, therefore, by starving the Interborough into bankruptcy. On the contrary, it can indirectly do itself great financial damage through the impairment of its own investment of about $250,000,000 in the combined Dual System. It would reap the inevitable result of repudiation of its good faith; for it could never again induce private capital to invest in Subway development.

Even if by continued refusal to increase fares, the City precipitated bankruptcy of its partner, it would still

have to face the problem of increasing fares to escape ruinous taxation.

If the City were in possession of the railroads, a continuation of a 5-cent fare would be contrary to the spirit of the Rapid Transit Act, which contemplates such a utility being self-supporting from rates received for service, without recourse to taxation to support it.

How a Rising Tax Rate Hurts.

The importance of the situation to property interests may be realized from this:

> *On the basis of the New York City tax rate for* 1918 *an addition of* $10,000,000 *to the budget would have meant* 12 *points added to the tax rate. On the same basis, a dual subway deficit of* $15,000,000 (*and it may be even more*) *would mean* 18 *points added to the tax rate.*

List of Benefits to All Parties.

Briefly summarized, the benefits through an increase of fare would be these:

BENEFITS TO CITY.

1. Its Subway investment in lines assigned for operaation by this company (about $100,000,000) would become self-supporting.

2. This would release an amount of borrowing capacity, for rapid transit purposes, equal to the Subway investment, and establish such a margin between the debt limit and the City's actual commitments as to strengthen the City's financial position, and not only attract capital, but attract it at lower rates.

3. Relief to New York property of a tax burden, which would otherwise be passed on in part in higher rents to tenants and higher prices to customers.

4. Avoidance of permanent damage to real estate and other business interests through shifting of populations due to higher taxes.

BENEFITS TO THE COMPANY.

1. Receipt of preferentials currently, instead of postponement (with compound interest) to a later date.

2. The use of this money (instead of borrowed money) for current expenses.

3. Removal of any possibility of reflection upon the company's credit through delays of payment of its dues.

Involved in this last result would be another just as important: avoidance of the possibility of sympathetic effects on general credits and the city's business structure.

This will be developed more at length further on.

No Addition to Profits.

Contrary to popular but mistaken impression, the proposed increase of fare *would not increase the company's profit.* The contract limits the profits of the Interborough until the City has received a stated return (8.76 per cent.) upon its investment (which is not being earned), so that an increased fare on the Subway or Elevated can be so limited in amount as not to increase by one penny the profit of the Company from these lines beyond that provided by the contracts with the City.

The only difference an increase in rate of fare would make to the Interboough would be that it would get its preferentials promptly (instead of letting them accumulate for a period of years, with interest compounded semi-annually) thus improving its credit position.

The Board of Estimate's Statement.

The statement issued by the Board of Estimate says that the explicit terms of the contract give the Interborough no receipts except from fares received. But it implies that, if from such unforeseen causes as the war, those receipts were insufficient and its partner were bankrupted, the City would be the gainer.

This would only be true (even in the narrow, arithmetical sense), provided normal conditions were never restored and traffic growth ceased.

Inasmuch as the question at issue is not the profit

of the Company, that being limited by the terms of the contract, the only immediate practical question is whether the City should, at no loss to itself, protect the credit of its partner over the period of high costs due to war and until normal conditions are restored.

A Policy of Confiscation.

The statement issued by the Board of Estimate further declares that the higher costs of transportation due to the war need not be taken from either fare-payer or taxpayer. The Board says:

> There appears to be no reason why the burdens caused by the war, or otherwise, ought to be shifted from the holders of Interborough securities to the traveling public.

The Board, in other words, proposes to allow these costs to be taken out of the investor. Is this not a frank announcement of a policy of confiscation?

As to Municipal Operation.

The issues on the operating side are just as important as the issues on the financial side. If the City, operating its own subways, could avoid the high prices due to the war, a policy of inaction might be understandable from an economic basis. But there is no such possibility. The City admits it would have to raise the fare or raise the taxes to meet these costs. So there is no economic question at issue.

And there is no legal question at issue. Both the validity and the desirability of making the contract were settled long ago, and the partnership became operative January 1, 1919.

The only question left is one of public policy—

"Does the public want the Subways and Elevated to be operated by the City?" The contrast is interesting:

CITY OPERATION.	PRIVATE OPERATION.
1. Increase of fares to meet costs due to war, after having violated the spirit of the agreement with the Interborough and after destroying its credit and by that act shutting off all future investment of private capital necessary for development of the City's transportation.	Increase of fares to (1) meet costs due to war, and (2) to permit current payment of preferential due Interborough, and (3) to make the City's investment self-supporting and thereby avoid increase in taxes otherwise necessary to meet interest on City's investment.
2. Operating officials subject to political change every four years or oftener.	Tenure of position dependent upon demonstrated and maintained efficiency.
3. Governing policies subject to political exigency, decisions to hold only until those exigencies change.	Governing policies determined jointly by Company and public authorities; decisions to hold so long as they are beneficial.
4. Political incentives to govern employees.	Efficiency incentives to govern employees.
5. Low discipline and morale with high accident rate.	High discipline and morale with low accident rate.

VI.

AS TO "EXCESSIVE OVERHEAD."

The total amount paid as salaries of general officers of the Interborough for the fiscal year ended June 30, 1918, was $186,600.

The total operating expenses of the Subway and Elevated lines for the last fiscal year were $19,113,-336. *Less than one cent out of each dollar* of this was for salaries of general officers.

The net corporate income decreased $4,222,599 for the year. If all the general officers' salaries had been abolished there would have remained a loss of over $4,000,000.

The Interborough has made the Subway the safest passenger carrying railroad in the world by a policy of providing for its operation and control the best qualified men obtainable. To adopt any other policy, where human life is at stake, would be recreant to a most serious responsibility.

Great Increases in Wages.

The total amount of wages (for operation and maintenance) at the rates of pay in effect September 10, 1918, is $6,250,000 a year *greater than* the amount would be at the wage rates paid at January 1, 1916.

The amounts set out below as "salaries of general officers" include the salaries of the President, Vice-President, Vice-President and General Manager, Assistant to the President, Treasurer, Secretary, Auditor, General Counsel, General Attorney and the Director of Welfare.

The term "other officers and salaried employes" includes all officers, clerks, stenographers, bookkeepers, etc., and monthly men not included among "general officers."

The analysis below shows the relative importance, in the present situation, of the items "salaries" and "wages."

Part of a 5-Cent Fare Going for Salaries.

To general officers	2/100 of a cent
To other officers and salaried employes	12/100 of a cent
Total to officers and all other salaried employes	14/100 of a cent
Part going for wages	1 59/100 cents

Out of every dollar of Operating Revenue only a fraction of a cent was paid for salaries and expenses of the general officers during the last four fiscal years, as follows:

Year.	Out of each dollar of Operating Revenue.
1915	65/100 of a cent
1916	59/100 of a cent
1917	47/100 of a cent
1918	46/100 of a cent

Similarly each dollar of Operating Expenses includes slightly more than 1 cent (with one exception) for salaries and expenses of general officers during the last four fiscal years, as follows:

Year.	Included in each dollar of Operating Expenses.
1915	1.70 cents
1916	1.50 cents
1917	1.13 cents
1918	.98 cents

After wages and salaries the other disbursements are for materials and supplies (more than 3,500 items), taxes, interest, equipment and repairs.

The Total Pay-Roll Analyzed.

Of the Company's total pay-roll disbursements (both "wages" and "salaries") during the fiscal year ended June 30, 1918, the percentages are as follows:

Portion of total pay-roll going to all general officers and other "salaried employes"....	7.91%
Portion going for wages.....	92.09%
Total	100.00%

But since June 30, 1918, enormous increases in wages have been made and the foregoing figures do not, therefore, reflect the present-day situation. The figures, for October, 1918, compared with the figures of October, 1914, show the great increases more strikingly and present the actual situation as it now has to be met.

The wages paid to the men engaged in maintaining and operating the Subway and Elevated lines (exclusive of any salaried employes) were $857,816 *more in October,* 1918, *than they were in October,* 1914, *or an increase of* 134 *per cent.*

A pay-roll increased by more than three-quarters of a million dollars a month is a serious problem. Part of this increase, of course, is due to the larger number of trains, especially since the opening of the new East and West Side lines in July and August, 1918, but the greater part is due to the increase in rate of wages. The average daily rate of wages paid in October, 1918, was an increase of 67 per cent. over the rate paid in October, 1914.

VII.

ON THE IMPORTANCE OF CREDIT OF THE UTILITIES TO THE NATION.

Too much stress cannot be laid upon the importance of maintaining the credit of the electric railways as a vital part of the nerve structure of the nation's business.

In New York City this vast responsibility is primarily upon the Board of Estimate and Apportionment. It has the power of life or death, through control of rates of fare, over the electric railway companies.

The authorities ought as a matter of policy and of justice to maintain the parity of the car fare. It has depreciated fully 50 per cent. *A* 10-*cent fare would be no higher in purchasing power over things needed to provide service than the* 5-*cent fare used to be.* By the same token, the 5-cent fare is a much smaller portion of the people's wages today than it used to be.

Railways Entitled to a Fair Return.

To assure the credit of utilities, the law of the State of New York—as of most of the States—specifically declares that investors in public utilities are entitled to a "fair return" upon the "fair value of its property."

The constituted authorities have no legal formula for determining a "fair return," but they are supposed to take into consideration the risk involved in the investment. Their powers, in fact, are so great that the attitude of the commissions or city bodies is one of the most important of the risks considered by investment bankers and private investors. *A decision affects not only the credit of the company at bar, but all companies in its class.*

A hostile attitude toward the utilities raises the rates at which capital can be borrowed for their use.

The securities of the electric railways (subways, surface and elevated) in New York City alone aggregate about $272,000,000 stocks and $735,500,000 bonds.

Those of the rest of the State are about $124,000,000 stocks and $152,000,000 bonds. *The total is more than a billion and a quarter of dollars.*

A Vast Credit Structure in Danger.

This vast sum of utility securities is in jeopardy, and it is in jeopardy because, notwithstanding the request of the President of the United States, the Secretary of the Treasury, the Comptroller of the Currency, the War Labor Board and the plain facts, the local authorities in New York have not permitted the companies to increase their fares sufficiently to meet abnormal costs and to protect their credit in conditions they are in nowise responsible for. Some are already bankrupt; all are headed toward the rocks.

In such conditions banks cannot but refuse loans on such securities, thus seriously restricting credit; and they cannot invest or advise investment in such enterprises.

Even in normal times default on securities on any such scale, or even a large part of them, would be an absolute disaster to the State of New York, and possibly the nation, so far do the nerve threads of the credit structure ramify. But times are not normal. Following the most gigantic war in history is a period of reconstruction on such a huge scale as to make the credit of many of the nations questionable, and credit even in our own country extremely sensitive. After such a default a generation would pass before another dollar of private capital could be secured for a public utility.

The Effect on Taxable Wealth.

Again, the loss of capital through bankruptcy is just as serious as loss of capital through war. The basis of taxation is the wealth of its citizens. If a billion and a

quarter of electric railway securities—or any large proportion of this sum—were to be eliminated from the taxable wealth of the State, the burden left for the remainder would be staggering.

To seriously assume that the credit of these vast and essential organizations can be put in jeopardy and the effects localized or even restricted to utilities is at least highly dangerous.

The Sympathy of Credit.

Every city's general business credit is sympathetic to the credit of its utilities. Cities cannot be prosperous without efficient utilities; and utilities cannot be efficient without prosperity.

Public regulation of rates involves public protection of credit.

What economic law does for ordinary business must be done for the utilities by the bodies having their existence literally in their hands.

Investors cannot be coerced; they must be attracted. Utility investments, therefore, must be attractive in competition with other investments. They should be even more attractive, for on them public convenience depends. But in utilities profits are limited. "Excess profits" are not allowed in fat years to provide against the lean. And this doubles the duty of protecting them in years of adversity.

Good credit is vital to a utility's possibility for good service. It is a cornerstone in the whole modern business structure. Start the bricks falling, and there is no telling where it will end.

INTERBOROUGH RAPID TRANSIT CO.,

Theodore P. Shonts

President

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TITLE